

Legislative Audit Division

State of Montana



Report to the Legislature

May 2002

Financial Related Audit For the Fiscal Year Ended June 30, 2001

The University of Montana (All Campuses)

We performed a financial related audit of The University of Montana for the fiscal year ended June 30, 2001. This audit covered all four campuses affiliated with The University of Montana: The University of Montana-Missoula; Montana Tech of The University of Montana; The University of Montana-Western; and The University of Montana-Helena College of Technology. This report contains six recommendations to the university and a disclosure issue relating to controls over travel advances and reimbursements. Issues addressed in this report include:

- ▶ Accounting for compensatory time.
- ▶ Contract time limits.
- ▶ Accountability in the financial records.
- ▶ Reporting on the Schedule of Expenditures of Federal Awards.

The financial audit of the University of Montana's consolidated financial statements for the fiscal year ended June 30, 2001, was issued in a separate report in March 2002 (02-10).

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
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02-10B

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Government Auditing Standards issued by the United States General Accounting Office state financial related audits may include an audit of internal controls over compliance with laws and regulations such as those over federal programs or audits of compliance with laws and regulations and allegations of fraud. Generally, financial related audits are categorized in the following three areas: (1) determining if financial information is presented in accordance with established or stated criteria, (2) determining if the entity has adhered to specific financial compliance requirements, or (3) determining if the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report, which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
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May 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial related audit of The University of Montana (all campuses) for the fiscal year ended June 30, 2001. To accomplish the objectives we previously had in our biennial financial-compliance audit of the university, we will issue a financial audit each fiscal year covering the fiscal year's consolidated financial statements of the university and a financial related audit. The fiscal year 2000-01 financial audit of the University of Montana's consolidated financial statements was issued in March 2002. The financial audit for fiscal year 2001-02 will be performed in the fall of 2002.

This audit report includes recommendations related to accounting for compensatory time, proper withholding of payroll taxes, proper reporting in the accounting records, and compliance with a state law on contracts. The report also includes a disclosure issue on controls over travel advances and reimbursements.

We thank the president and university staff for their assistance and cooperation during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial Related Audit

For the Fiscal Year Ended June 30, 2001

The University of Montana (All Campuses)

Members of the audit staff involved in this audit were Pearl M. Allen, Chris G. Darragh, Wayne D. Guazzo, Brenda Kedish, Amber Long, Paul J. O'Loughlin, and Lorry Parriman.

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Appointed and Administrative Officials

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		<u>Term Expires</u>
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Edwin H. Jasmin, Vice Chair	Big Fork	February 1, 2004
Christian Hur, Student Regent	Billings	June 30, 2003
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The University of Montana

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 David Aronofsky, Legal Counsel
 James R. Darcy, Director of Business Services
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Montana Tech of The University of Montana

W. Franklin Gilmore, Chancellor and University Executive Vice President
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 Joseph F. Figueira, Vice Chancellor for Research and Graduate Studies and University Associate Vice President
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Appointed and Administrative Officials

The University of Montana – Western

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and University Associate Vice President for Student Affairs
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The University of Montana – Helena College of Technology

Steven G. Hoyle, Dean/CEO
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Myrna M. Doney, Assistant Dean for Student Services
Donnie J. Whitaker, Controller

**The University of
Montana All Campuses**

We performed a financial related audit, as defined in generally accepted government auditing standards, of The University of Montana, all campuses, for the fiscal year ended June 30, 2001. These standards define financial related audits as determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives. These audits may include for example, audits of internal controls over compliance with laws and regulations over federal programs or audits of compliance with laws and regulations and allegations of fraud.

This report contains six recommendations addressing areas where The University of Montana can improve its financial accountability and internal controls, including issues relating to compensatory time and wage withholding, and its compliance with state and federal laws and regulations relating to contracts, leave pool rates, and properly reporting information on its accounting records. In addition, there is a disclosure issue related to controls over travel advances and reimbursements. The university's written response to the audit recommendations begins on page A-3.

The listing below serves as a means of summarizing the recommendations contained in the report, the university's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the university ensure compliance with its compensatory time policies and procedures. 10

University Response: Concur. See page A-4.

Recommendation #2

We recommend the university comply with state law relating to time frames in contracts for services.. 10

University Response: Concur. See page A-4.

Report Summary

Recommendation #3

We recommend UofM-Western and UofM-HCOT:

- A. Establish procedures to ensure social security taxes are properly withheld from the wages of student employees.
- B. Compute and pay the appropriate social security taxes 11

University Response: Concur. See page A-4.

Recommendation #4

We recommend UofM-Missoula ensure amounts reported on the SEFA and related disclosures are accurate and complete. 12

University Response: Concur. See page A-4.

Recommendation #5

We recommend MT Tech of the UofM charge adequately supported leave rates for its leave pool as required by federal regulations..... 13

University Response: Concur. See page A-5.

Recommendation #6

We recommend the university ensure its accounting records are in compliance with state law and accounting policies 15

University Response: Concur. See page A-5.

Introduction

Audit Objectives

We performed a financial related audit of The University of Montana (all campuses) for the fiscal year ended June 30, 2001. The objectives of the audit were to:

1. Determine if the university complied with applicable laws and regulations.
2. Make recommendations for improvements in the internal and management controls of the university.
3. Determine the implementation status of prior audit recommendations in the financial compliance audit for the two fiscal years ended June 30, 2000.

The fiscal year 2000-01 consolidated financial statements of The University of Montana were audited by our office and issued in a separate report in March 2002 (02-10).

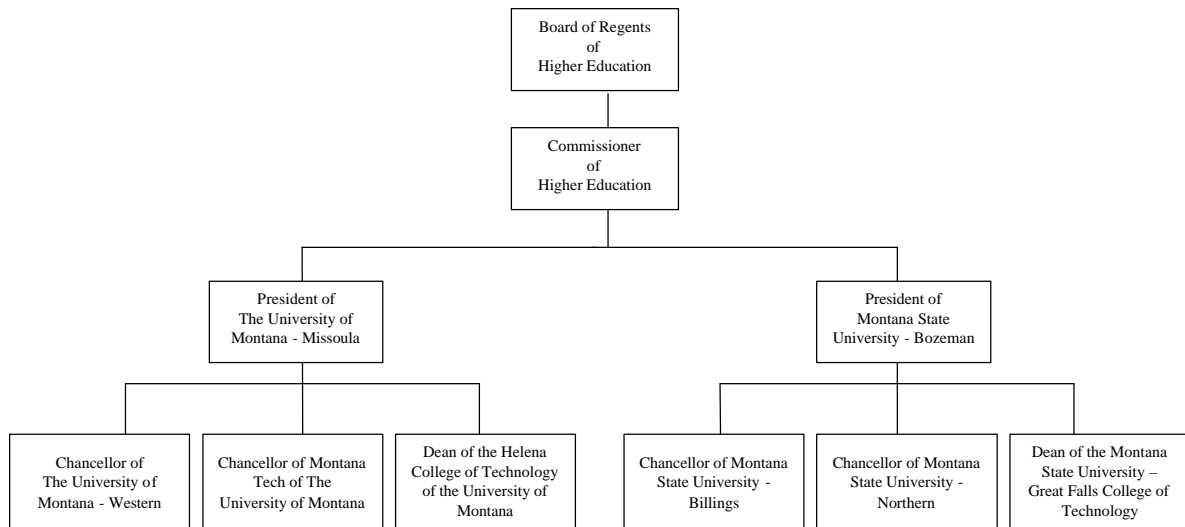
In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation. Other areas of concern deemed not to have a significant effect on the successful operation of university programs are not specifically included in the report, but have been discussed with management.

Background

The Board of Regents of Higher Education approved the current Montana University System structure in January 1994. The following chart illustrates the organization of the Montana University System.

Introduction

Figure 1
Montana University System Organizational Chart



Source: Compiled by the Legislative Audit Division.

The University of Montana consists of four campuses:

- ▶ The University of Montana – Missoula (UofM-Missoula) located in Missoula.
- ▶ Montana Tech of The University of Montana (MT Tech of the UofM) located in Butte.
- ▶ The University of Montana – Western (UofM-Western) located in Dillon.
- ▶ The University of Montana – Helena College of Technology (UofM-HCOT) located in Helena.

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of The University of Montana provide a diversity of undergraduate

Introduction

and graduate academic and two-year vocational/technical programs to students.

The University of Montana reported employee FTE (full-time equivalent positions) of 2,950.02 for fiscal year 2001. Contract faculty positions were 913.32 FTE employees. The following table shows reported fiscal year 2001 FTE employees by campus and type.

Table 1
The University of Montana
Full-Time Equivalent Employees
Fiscal Year 2001

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Assistants	Part-Time & Other*	Total
UofM - Missoula	681.77	107.38	99.73	997.52	71.18	341.73	2299.31
UofM - Western	65.14	13.33	20.80	63.31		24.18	186.76
MT Tech of the UofM	124.24	8.58	62.28	99.53	14.84	33.11	342.58
UofM - HCOT	33.75	3.75	5.48	18.93		12.43	74.34
Bureau of Mines		1.00	19.14	11.39	0.14	1.95	33.62
Forestry Conservation Station	8.42	0.26	2.05	1.95	0.21	0.52	13.41
Total	913.32	134.30	209.48	1192.63	86.37	413.92	2950.02

*This category includes permanent part-time non-faculty, not classified employees and temporary employees.

Source: Office of Commissioner of Higher Education “MUS Operating Budgets 2001-2002” Schedule 18

The following table shows the change in student full-time equivalent (FTE) between 1996 and 2002.

Introduction

Table 2
The University of Montana FTE Enrollments

	1996 Actual	2002 Actual	% Change Inc. (Dec.)
THE UNIVERSITY OF MONTANA			
Missoula			
Resident – College of Technology	589	765	30%
Undergraduate Resident	5,954	6,736	13%
Graduate Resident	<u>685</u>	<u>958</u>	<u>40%</u>
Total Residents	7,228	8,459	17%
Western Undergraduate Exchange Program – UM-Missoula	239	361	51%
Western Undergraduate Exchange Program – College of Technology		6	100%
Nonresident – College of Technology	40	32	-20%
Undergraduate Nonresident	2,723	2,233	-18%
Graduate Nonresident	310	543	75%
Total Nonresidents	3,312	3,175	-4%
TOTAL MISSOULA	<u>10,540</u>	<u>11,634</u>	<u>10%</u>
Montana Tech			
Resident – College of Technology	319	287	-10%
Undergraduate Resident	1,334	1,275	-4%
Graduate Resident	<u>58</u>	<u>59</u>	<u>2%</u>
Total Residents	1,711	1,621	-5%
Western Undergraduate Exchange Program – UM Tech	73	145	99%
Western Undergraduate Exchange Program – College of Technology		5	100%
Nonresident – College of Technology	10	3	-70%
Undergraduate Nonresident	195	109	-44%
Graduate Nonresident	20	20	0%
Total Nonresidents	298	282	-5%
TOTAL TECH	<u>2,009</u>	<u>1,903</u>	<u>-5%</u>
Western			
Undergraduate Resident	980	874	-11%
Western Undergraduate Exchange Program	42	102	143%
Undergraduate Nonresident	<u>60</u>	<u>38</u>	<u>-37%</u>
TOTAL WESTERN	<u>1,082</u>	<u>1,014</u>	<u>-6%</u>
Helena College of Technology			
Resident	457	727	59%
Western Undergraduate Exchange Program		6	100%
Nonresident	<u>10</u>	<u>3</u>	<u>-70%</u>
TOTAL HELENA COLLEGE OF TECHNOLOGY	<u>467</u>	<u>736</u>	<u>58%</u>
Total UM Resident	10,376	11,681	13%
Total UM Western Undergraduate Exchange Program	354	625	77%
Total UM Nonresident	3,368	2,981	-11%
Total University of Montana	14,098	15,287	8%

Source: Office of Commissioner of Higher Education.

The University of Montana- Missoula

The UofM-Missoula was established in 1893 in Missoula as a comprehensive university. The campus offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools include business administration, education, fine arts, forestry, pharmacy and allied health services, and journalism. In addition, the campus includes a two-year college of technology, which provides a broad range of technical and occupational education and training courses.

Montana Tech of The University of Montana

MT Tech of the UofM was established in 1893 in Butte as the Montana School of Mines. It provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs and majors. It also includes a college of technology, which provides core education courses and two-year degrees in various occupational and technical programs.

The University of Montana- Western

UofM-Western was established in 1893 in Dillon as the state's Normal School for Teacher Education. It provides both two-year and four-year undergraduate degree programs with a focus on elementary and secondary education. It also provides a four-year liberal arts degree with several emphases that complement the education programs.

The University of Montana- Helena College of Technology

UofM-HCOT was established in 1939 in Helena as a Vocational-Technical School. UofM-HCOT is a two-year institution of higher education and offers an Associate of Science Degree in General Studies for students who want to acquire a core of coursework transferable to baccalaureate programs throughout the state. In addition it offers a variety of other occupational, technical, and training specialties, including accounting, construction, computer, electronics and welding technologies, and practical nursing. UofM-HCOT is expanding its offerings as a higher education center by

Introduction

hosting and facilitating graduate level study in cooperation with the entire Montana University System.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed a financial-compliance audit of The University of Montana (all campuses) for the two fiscal years ended June 30, 2000. The university concurred with all six recommendations contained in the report. Of these recommendations, two have been implemented and four have been partially implemented. Issues related to compensatory leave, page 9, and leave pools, page 12, are discussed further in this report. The other two partially implemented recommendations are discussed below.

Notification of Theft

In our prior two audits of the university we had recommendations relating to the timely notification of thefts. Section 5-13-309(3), MCA, requires the head of each state agency to immediately notify both the attorney general and the legislative auditor in writing upon the discovery of any theft, actual or suspected, involving state moneys or property under his control or for which he is responsible. During our current audit we identified two instances at MT Tech of the UofM campus where this notification did not occur in a timely manner. University personnel have provided us with revised procedures established to ensure these thefts are reported timely in accordance with state law. Since the university has changed its procedures we make no further recommendation at this time.

Financial Aid Reports

The prior audit report recommended the university reconcile the UofM-Western campus Perkins Loan Program amounts reported on its Fiscal Operations Report to the accounting records as required by federal regulations. At the time we completed our fieldwork, UofM-Western campus personnel were working to reconcile the Perkins Loan Program amounts reported on the fiscal operations report but had not yet completed the reconciliation. Because the university is currently in the process of reconciling the report to the accounting records we make no further recommendation at this time.

Findings and Recommendations

Accounting for Compensatory Time

UofM-Missoula personnel did not implement procedures to ensure compliance with university compensatory time (comp time) policies and procedures, as recommended in the prior audit report. In the last audit, we noted one department did not report comp time earned and used on time cards or the payroll system. During this audit, we reviewed six departments that did not report any comp time during fiscal year 2000-01 and found that three academic departments had employee comp time that was not properly recorded on time cards and/or entered into the payroll system.

University procedures require comp time be recorded on the timesheets and entered into the human resource system. These policies require employees who are eligible for overtime earn comp time at time and a half. Employees who are not eligible for overtime earn comp time hour for hour. These policies are available on a university Internet site and human resources provides guidance to personnel regarding payroll reporting.

Department employees are responsible for tracking their own comp time. The three departments where we found errors indicated that employees qualify for overtime pay, but because of budget constraints they earn comp time instead. Two employees within the Liberal Arts department indicated they earn comp time on an hour for hour basis and report it on their timesheets, but the comp time activity does not get entered into the human resource system. One employee in the Arts department indicated that, at times, comp time is earned and tracked on an hour for hour basis and at other times at time and a half. This comp time is not reported on timesheets or in the human resource system. The third department, Drama/Dance, has six employees who earn comp time at time and a half and do not enter this information on timesheets. The comp time is also not entered into the human resource system.

University management should ensure that the earning and reporting of comp time is handled in a consistent manner at all departments and complies with university policies. When the comp time earned is not

Findings and Recommendations

reported on the human resource system there is a potential unrecorded liability at the university.

Recommendation #1

We recommend the university ensure compliance with its compensatory time policies and procedures.

Contract Time Limits

The three campuses of The University of Montana that offer Perkins Loans through their Financial Aid offices have each contracted with a different company to track and service the Perkins Loans activity and balances for students receiving a Perkins Loan. These contracts have been in effect for 12 to 16 years. During these time periods the contracts were not re-bid. Contract amounts for the three campuses for fiscal year 2000-01 totaled \$75,805.

Section 18-4-313 (1), MCA, provides that, unless otherwise provided by law, a contract for supplies or services may not be made for a period of more than seven years. The University of Montana should ensure all contracts comply with state contracting requirements.

Recommendation #2

We recommend the university comply with state law relating to time frames in contracts for services.

Social Security Withholding

Federal regulations allow student employees who are enrolled for at least six credit hours at colleges or universities an exemption from social security taxes (FICA). When a student's credit hours drop below six, or if they work for the college during the summer break and are not attending summer school, the student loses exempt status and the university must withhold the taxes from the employee's payroll. The federal regulations hold the university liable for back taxes if it fails to properly apply the exemption.

We reviewed procedures at UofM-Missoula, UofM-Western, and UofM-HCOT to determine if controls were sufficient to ensure social security taxes were properly withheld from wages paid to student

Findings and Recommendations

employees. We found control procedures to ensure compliance with these requirements were adequate at the UofM-Missoula campus, but not at the UofM-Western and UofM-HCOT campuses.

At both the Western and Helena campuses, we found students enrolled for less than six credit hours who did not have social security taxes withheld from their pay. In addition, the campuses did not pay the employer share of the tax for these employees. UofM-Western personnel indicated they manually check student time cards to ensure the number of credits is filled in during the academic year, but not during summer session. We reviewed one pay period in summer 2001 and one pay period in fall 2000. We noted 1 employee on the Western campus during the academic year and 12 during summer session that did not have FICA withheld. UofM-HCOT personnel stated they do not have procedures in place to check student employees' credit hours to ensure FICA taxes are being withheld from their paycheck when the student employee falls below six credit hours. We noted one employee at the UofM-HCOT campus during the academic year and ten during summer session that did not have FICA withheld.

UofM-Western and UofM-HCOT personnel have not reviewed the exempt status of student employees, nor have they determined a dollar amount owing to the federal government for the incorrect withholding.

Recommendation #3

We recommend UofM-Western and UofM-HCOT:

- A. Establish procedures to ensure social security taxes are properly withheld from the wages of student employees.**
- B. Compute and pay the appropriate social security taxes.**

Schedule of Expenditures of Federal Awards

University personnel prepare a Schedule of Expenditures of Federal Awards (SEFA) each fiscal year. The Governor's Office compiles agency SEFA information into a single SEFA for the state of Montana.

Findings and Recommendations

We audit and express an opinion on the state of Montana SEFA in our biennial Single Audit report.

At the UofM-Missoula, we noted certain SEFA amounts and amounts in the notes to the SEFA were not correct. The university overstated federal grant expenditures for the SEOG program by \$158,788 and for the Federal Work Study program by \$244,107 in fiscal year 2000-01. In addition, Federal Health Professions Student Loans totaling \$84,140 were not recorded in the university's notes to the SEFA.

Federal regulations and state policy require the recipients of federal assistance to accurately report the expenditures for each assistance program. The accounting records must support the reports. University personnel indicated several reasons for the errors, including timing of when personnel prepared the SEFA, new staff, and errors not reconciled on the accounting system.

Recommendation #4

We recommend UofM-Missoula ensure amounts reported on the SEFA and related disclosures are accurate and complete.

Leave Pool

MT Tech of the UofM charges grants and contracts a percentage of personal services costs for vacation and sick leave benefits and deposits money received in its leave pool account. The purpose of the leave pool is to ensure leave costs, projected to be paid to employees working on a project, are charged to the project.

Our prior audit report recommended the university adequately support the rates used for MT Tech of the UofM leave pool as required by federal regulations. Campus personnel calculated leave pool rates for a sample of employees using different assumptions regarding sick leave usage. The rates being charged to grants and contracts were between the rates calculated so personnel believed the rates charged were adequately supported.

Findings and Recommendations

Federal regulations require that recipients of federal funds keep documentation to support the propriety of all costs charged to federal programs. In addition, they require costs charged to federal programs be reasonable and allocable to the program. In fiscal year 2000-01, the university reported \$163,503 of revenue in the leave pool. Because MT Tech of the UofM is charging federal grants and contracts rates that are not supported by its calculated rates, we question the allowability of the federal portion of these costs.

Recommendation #5

We recommend MT Tech of the UofM charge adequately supported leave amounts for its leave pool as required by federal regulations.

Accountability in the Financial Records

During our audit of the university for the two fiscal years ended June 30, 1998, we recommended the university review its procedures to ensure accounting records are in compliance with state accounting policy and state law. The audit for the two fiscal years ended June 30, 2000 noted accounting errors similar to those addressed in the prior audit; however, the university had reviewed its procedures to improve the accuracy of its accounting records. Therefore, we made no recommendation at that time.

Our current audit noted problems in the accounting records that need to be resolved to ensure compliance with state law and accounting policy. State law requires every state agency to record transactions necessary to ensure the accounting records present the receipt, use and disposition of all money and other property in accordance with generally accepted accounting principles (GAAP). The Department of Administration establishes accounting policies to ensure the accounting records are in accordance with GAAP and an agency is responsible for applying these policies to its operations.

We identified the following items where the university should improve accountability in its financial records to comply with state law and policies:

Findings and Recommendations

- ▶ The UofM-Missoula is a conduit for Stafford student loans between the bank and the student. When the university receives the cash from the bank it is recorded in the restricted fund as revenue and subsequently distributed to the various funds for its intended purpose, tuition and fees. The university transferred the cash to the other funds by recording scholarship expenditures. Because this activity is recorded in the other funds, restricted fund revenues and scholarship expenditures are overstated by over \$33.4 million in fiscal year 2000-01. The university financials statements were adjusted for this overstatement. To avoid this overstatement the university could record uncleared collections when they receive the cash from the bank.
- ▶ UofM-Missoula created a partnership with the Missoula Area Economic Development Foundation (MAEDF) to establish the Montana Technology Enterprise Center (MonTEC), a nonprofit corporation. This corporation intends to provide low cost lease space and business consulting to local “start-up” companies beginning in fiscal year 2002. The corporation acquired a warehouse facility in fiscal year 2001 and was in the process of renovating the facility at June 30, 2001, for a total cost of approximately \$1.5 million. According to the MonTEC bylaws all MonTEC assets, including buildings and equipment constructed or acquired, shall be equally owned by The University of Montana and the MAEDF. Because the university has an ownership interest in MonTEC, that interest should be reported in the university’s accounting records.
- ▶ State accounting policy requires each state agency to capitalize and report on the state’s accounting records all owned land, buildings, equipment and intangible items that cost \$5,000 or more. The value of library books is required to be accounted for as a long-lived asset for colleges and universities. MT Tech of the UofM is not reducing the library book asset valuation for books and materials removed from circulation during the year.
- ▶ We identified two accounts at the UofM-Missoula campus where the amounts reported on the accounting records were not adequately reconciled to the account detail. The payroll deduction clearing account in the agency fund had an unreconciled difference of \$707,732 and the accounts payable account contained a difference of \$4,974. These accounts were not fully reconciled due to time constraints of the individuals performing the reconciliations. According to university personnel, scheduled completion of a memo of procedure for the

Findings and Recommendations

reconciliation process and the reconciliation for the payroll clearing account is expected by fiscal year end 2001-02.

Recommendation #6

We recommend the university ensure its accounting records are in compliance with state law and accounting policies.

Travel Advances

Each department at the UofM-Missoula maintains travel advance forms for its travel and is responsible for the distribution and control of Travel Advance Vouchers for individuals that request advance funds. A properly authorized Travel Expense Voucher outlining actual expenditures of the trip must be submitted to Business Services after the completion of the trip.

The University of Montana internal audit staff began a review in April 2001 regarding the procedures followed at one university department. The department did not have proper segregation of duties in place for the travel payment process, and outstanding travel advances were not being monitored. The same employee maintained the travel advance forms, approved advances, and reviewed and submitted the Travel Expense Voucher at the completion of a trip. Business Services had also not performed a timely reconciliation of outstanding cash travel advances for the time period from the summer 1998 through spring 2000. The internal audit staff found there were a number of outstanding travel advances, and that cash returned to the department for unused advance money did not always get deposited at Treasury Services. The university internal audit staff found travel advances that did not appear to be for legitimate university business, or funds that could not be accounted for totaling \$26,286. The university notified our office of the suspected theft in accordance with state law. This issue was referred to the Attorney General's office and to the Governor by our office, in accordance with section 5-13-304(4), MCA.

In January 2002, the university internal audit staff followed up on the procedures followed in the department. Due to staff turnover in the department, new procedures to monitor the travel advance process and outstanding travel advances had not been put into place. Since internal audit staff and the department director are currently working on implementing new procedures, we make no recommendation at this time.

University Response



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20 May 2002

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Helena, MT 59620-1705

RECEIVED

MAY 28 2002

LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

I write to thank the Legislative Audit staff for its cooperation and completion of The University of Montana's Financial Related Audit for the fiscal year ended 30 June 2001. I concur with the recommendations and will address the issues as outlined in the University's response.

I also appreciate the cooperative efforts made by the audit team and thank those involved for their assistance. The University of Montana remains committed to improving controls and reliable financial reporting.

Sincerely,

George M. Dennison,
President

Enclosure

cc: R. Crofts, Commissioner of Higher Education
R. Duringer, Vice President for Administration and Finance

GMD/jw
denlet2428

The University of Montana

Response to Legislative Audit Division

Financial Related Audit

For Fiscal Years Ended 30 June 2001

May 2002

RECOMMENDATION #1

WE RECOMMEND THE UNIVERSITY ENSURE COMPLIANCE WITH ITS COMPENSATORY TIME POLICIES AND PROCEDURES.

The University concurs with the recommendation. The University will continue to educate employees on compensatory policies. Human Resource Services will semi-annually remind campus personnel of the compensatory policies.

RECOMMENDATION #2

WE RECOMMEND THE UNIVERSITY COMPLY WITH STATE LAW RELATING TO TIME FRAMES IN CONTRACTS FOR SERVICES.

The University concurs with the recommendation. The University will ensure contracts are in compliance with applicable state laws. The Perkins Loan servicing agent/contract cited in the audit report will be bid in fiscal year 2003 with a new contract awarded by fiscal year 2004.

RECOMMENDATION #3

WE RECOMMEND THE UNIVERSITY UofM-WESTERN AND UofM-HCOT:

- A. ESTABLISH PROCEDURES TO ENSURE SOCIAL SECURITY TAXES ARE PROPERLY WITHHELD FROM THE WAGES OF STUDENT EMPLOYEES.**
- B. COMPUTE AND PAY THE APPROPRIATE SOCIAL SECURITY TAXES.**

The University concurs with the recommendation. University personnel have modified procedures on the UM-Western and UM-HCOT campuses to ensure social security taxes are properly withheld. For the time period noted by the Legislative Auditor, the University will first review all student payroll activity and then pay the appropriate social security taxes by 30 June 2002.

RECOMMENDATION #4

WE RECOMMEND UofM – MISSOULA ENSURE AMOUNTS REPORTED ON THE SEFA AND RELATED DISCLOSURES ARE ACCURATE AND COMPLETE.

The University concurs with the recommendation. University personnel will modify current fiscal year end procedures to enable more accurate reporting for the SEFA and related disclosures. These procedures will be utilized for fiscal year 2002 reporting.

RECOMMENDATION #5

WE RECOMMEND THE MT-TECH OF THE UoM CHARGE ADEQUATELY SUPPORTED LEAVE RATES FOR ITS LEAVE POOL AS REQUIRED BY FEDERAL REGULATIONS.

The University concurs with the recommendation. MT-Tech personnel completed a leave assessment study on 20 February 2001 that they believe supports the rates being utilized by UM-Tech. Personnel will conduct an additional review toward the end of fiscal year 2002. Based on this review, MT-Tech believes there may be a rate change that will be implemented in fiscal year 2003. MT-Tech will also obtain approval from their cognizant agency for their developed rate.

RECOMMENDATION #6

WE RECOMMEND THE UNIVERSITY ENSURE ITS ACCOUNTING RECORDS ARE IN COMPLIANCE WITH STATE LAW AND ACCOUNTING POLICIES.

The University concurs with the recommendation. The University continues to strive for accurate, timely, and reconciled accounting records. It is through this audit process that we continue to reduce discrepancies among the campuses and refine our procedures. All noted problems will be reviewed and accounted for in accordance with state law and accounting policies by 30 June 2002.